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SIPDIS

SENSITIVE

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SUBJECT: AMBASSADOR'S COURTESY CALL ON FINANCE MINISTER  
SOMKID JATUSRIPITAK

1. (U) Sensitive but unclassified. Please handle accordingly.

2. (SBU) Summary. On February 3, the Ambassador paid a courtesy call on Minister of Finance Somkid Jatusripitak. The Ambassador discussed the ongoing Thai-US FTA negotiations, and stressed the need to work together to ensure the talks continue to proceed smoothly and amicably. While agreeing on the need to move forward, Somkid expressed caution over the public perceptions of the agreement in Thailand, and urged the U.S. to see the FTA as a vehicle for cooperation rather than a negotiation over trade liberalization. Somkid praised the leadership of Prime Minister Thaksin and his management team in restoring the Thai economy to good health following the 1997 financial crisis, and sketched out an ambitious agenda for bureaucratic reform over the next 3-4 years. End Summary.

The FTA: Not Only about Trade Liberalization

3. (SBU) Moving quickly to the Thai-U.S. Free Trade Agreement (FTA), Somkid said that he expects to continue to play a key role in overseeing the negotiations after the election, and that Prime Minister Thaksin remains supportive of the talks. However, Somkid explained that the FTA is not only about reducing tariffs and taxes, but also about pursuing activities of mutual support. Noting lingering resentment over the perception that the U.S. was not supportive during the 1997 financial crisis, Somkid acknowledged that the Thai public still viewed the economic intentions of the US negatively, casting a shadow over the FTA negotiations. Instead, he said, we should highlight bilateral cooperation and outcomes that will make Thailand more competitive. Along these lines, the agreement should not only be concerned with trade liberalization, but with cooperation in trade and in investment -- tariffs are only one part.

4. (SBU) Somkid told the Ambassador that he plans to travel to Japan to re-invigorate the Japan-Thailand Economic Partnership (JTEP) negotiations, which have stumbled recently over key trade and investment issues. Referring to a conversation with the Japanese Ambassador last week, Somkid said that Japan should not treat a developing country like Thailand the same as other developed countries in their trade negotiations. According to Somkid, he told the Japanese Ambassador, "I will take care of your businesses in Thailand -- you must take care of me." Overall, Somkid said, the US FTA is more politically sensitive than JTEP due to negative Thai perceptions of U.S. investors, another hangover from the 1997 crisis. The Ambassador explained that despite this perception, American investors bring more into Thailand than the Japanese. While Japanese businesses retain control through many expatriate managers, the American business model, in contrast, seeks to hand over control to well-trained local managers as soon as possible. The Ambassador pointed out that this model is more effective in transferring technology and management skills to Thais.

5. (SBU) Somkid looked forward to a positive outcome from the FTA talks, where both sides are better off. Acknowledging the Ambassador's offer to help work toward these goals, Somkid suggested that the talks be characterized publicly not as "negotiations" -- which has connotations of conflict -- but as "discussions." Given the importance of perceptions, Somkid recommended changing the name of the FTA to something along the same lines as JTEP, underscoring "economic partnership." Somkid indicated that the Thai people are "scared" of larger countries like China, Japan and the U.S., but that Thais must be able to accept new ideas and situations. The Ambassador agreed that it is important to put a human face on the FTA, but for it to pass the U.S. Congress, the FTA must be comprehensive.

6. (SBU) Somkid added that another challenge for the Thaksin administration is the political opposition, which often tries to distort the message of the FTA and claims that Thaksin will "sell everything" to the U.S. While Somkid's Thai Rak Thai party has avoided all FTA topics during the election campaign, he agreed that they must clarify the government's intentions. He assured the Ambassador that the RTG will get

back to work on the FTA "not too long" after the elections. Somkid stressed that both the US and Thailand must help each other move the FTA forward smoothly, and having good communication is paramount; if there are missteps, there are groups willing to mislabel the discussions. In response, the Ambassador proposed that they both strive to keep each other apprised of each government's political and policy developments, so as to avoid unwanted surprises.  
Economic Recovery Successful Due to Management

17. (SBU) Noting the quick and successful recovery of the Thai economy from the 1997 financial crisis, the Ambassador asked Somkid which steps were most effective in restoring the economy's health. Overall, Somkid praised the steady leadership and management style of the Thaksin administration. In his role as Finance Minister, Somkid said that he focused first on rebuilding domestic confidence to spur investment and consumption. He explained that previous governments had focused exclusively on the export market, neglecting the potentially dynamic domestic consumer market. By urging the state banks to lend aggressively -- commercial banks had sharply curtailed credit after the 1997 crisis and are still lending conservatively -- they were able to stimulate investment and consumption, thus boosting confidence. Internationally, he stated, this government had promoted Thailand as the "hub" of Southeast Asia, and forged trade agreements and links with other countries in the region. In addition, Thailand remains an attractive destination for FDI, including the expansion of domestic capital markets.

Thaksin, part II: More Changes Ahead in the Economy and the Bureaucracy

18. (SBU) According to Somkid, Thaksin and his "managers" are still in the process of making major changes in the structure of the Thai economy. Somkid acknowledged that despite the economic recovery, the underlying structure of the Thai economy had not changed for decades. The hardest part, he admitted, is convincing bureaucrats and businesses to change their ways voluntarily, before change is forced upon them. Somkid said that they have had some success so far; many banks have changed their attitudes about credit, and have helped to stimulate both rural and urban demand through their lending policies.

19. (SBU) Somkid told the Ambassador that one of the main agenda items for the next Thaksin administration is to improve and reform the Thai bureaucracy. The plans for bureaucratic reform and restructuring will not focus on any one institution in particular -- such as the highly-respected Bank of Thailand, which is widely seen to have mismanaged the 1997 financial crisis -- but will be part of a much wider and comprehensive effort. Somkid said that the bureaucracy had improved under the Thaksin administration -- mainly through pressure -- but many institutions, such as the educational system, were failing in their mission. (Somkid decried the fact that he has to send his children to school in the U.S.) Somkid agreed with the Ambassador's suggestion that raising the salaries of government officials, as Singapore has done, had proven successful in recruiting, and retaining, the most talented civil servants.

"Managing" Thailand Still Biggest Priority

110. (SBU) Somkid recognized that this reform agenda is ambitious, but believes it can be achieved in 3-4 years under a strong, visionary leader like Thaksin. Describing the leadership and management style of Thaksin and his advisors, Somkid used the expression, "rao ruu yaang ped" ("to know like a duck," which can fly, swim, and walk on land), a Thai phrase meaning that they are generalists who can oversee all the specialized elements of administration. Although now Finance Minister, Somkid pointed out that his Ph.D. was in marketing; Thaksin himself, who received a Ph.D. in criminal justice, founded a company that now owned communications satellites in space. According to Somkid, successful management depends on leadership and vision, not expertise.

111. (SBU) In approaching this agenda, Somkid said Thaksin and his advisors have no fixed formula or theory -- "what has to be done, will be done." As with Thaksin's streamlining of ministries in 2002, Somkid predicted that a strong and stable administration would be able to make many changes in a second term. Using the example of Malaysia, Somkid said 25 years of stability under Mahathir had a great impact on Malaysia's growth and development. While acknowledging the benefits of stability, the Ambassador urged Somkid to be wary of comparison between Thaksin, and Mahathir or Singapore's Lee Kwan Yew. Comments like these, often designed to please local audiences, also resonate to foreign capitals, sometimes giving the impression that Thaksin may be impatient with democratic institutions and processes.

112. (SBU) Comment: Second to PM Thaksin, Somkid is the most recognized authority on financial and economic matters in the current administration. A key Thaksin insider -- and founding

member of the Thai Rak Thai party -- Somkid plays an especially important role in setting economic and trade policy. Despite Thaksin's enthusiasm for FTAs, Somkid's comments suggest that his support for these negotiations is lukewarm, at best (and many observers believe that left to his own devices, Somkid would abandon the FTA project entirely). Somkid's appeal for sympathy and generosity in the FTA negotiations is a commonly heard refrain from RTG officials and leaders. Fear of being overwhelmed by the U.S. in these talks has increasingly led the RTG to characterize this agreement as an ill-defined vehicle for economic cooperation, rather than a means to secure U.S. market access and reforms of the Thai economy. Somkid's promise to return to the hard work of FTA-making should probably be taken at face value, but our impression was that Somkid is not the kind of enthusiastic supporter we need at his level of leadership to move these negotiations forward. End Comment.

BOYCE